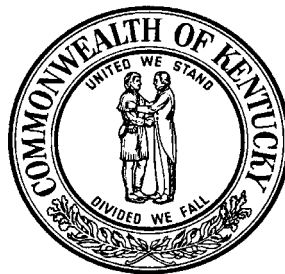


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
DEPARTMENT OF FISH AND WILDLIFE RESOURCES**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

**For the Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

TABLE OF CONTENTS

MANAGEMENT LETTER	1
LIST OF ABBREVIATIONS/ACRONYMS.....	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	4
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	8
<i>Reportable Conditions Relating to Internal Controls and/or</i> <i>Reportable Instances of Noncompliance</i>	8
FINDING 05-DFWR-1: The Department Of Fish And Wildlife Resources Should Develop Procedures Over Cash Drawdowns Within A Reasonable Time Frame	8
FINDING 05-DFWR-2: The Department Of Fish And Wildlife Resources Should Develop And Implement An Accounting Policy Requiring The Retention Of Supporting Documentation For All Cash And Check Receipts	9
FINDING 05-DFWR-3: The Department Of Fish And Wildlife Resources Should Continue Efforts To Have The General Assembly Remove KRS 150.150 Language From KRS 48.315	11
<i>Other Matters Relating to Internal Controls and/or</i> <i>Reportable Instances of Noncompliance</i>	14
FINDING 05-DFWR-4: The Department Of Fish And Wildlife Resources Should Enforce Strong Internal Controls Over Timekeeping And Authorization Procedures	14
FINDING 05-DFWR-5: The Department of Fish And Wildlife Resources Should Make Use Of All State Financial Accounting System Components	16
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	18



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Jon Gassett, Commissioner
Department of Fish and Wildlife Resources

MANAGEMENT LETTER

KRS 43.090 (1) requires the Auditor of Public Accounts, upon completion of each audit and investigation, to prepare a report of all findings and recommendations, and to furnish copies of the report to the head of the agency to which the report pertains, and to the Governor, among others. This KRS also requires the Kentucky Department of Fish and Wildlife Resources to, within 60 days of the completion of the final audit, notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and those it has not implemented and any reasons therefore. We are providing this letter to the Department of Fish and Wildlife Resources in compliance with KRS 43.090.

The work completed on the Department of Fish and Wildlife Resources is part of the overall opinions included in the audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) and Statewide Single Audit of Kentucky (SSWAK). Findings and recommendations for agencies, audited as part of the CAFR and SSWAK, if applicable, can be found in the Statewide Single Audit Report. This report can be obtained on our website at www.auditor.ky.gov.

In planning and performing our audits of the Commonwealth for the year ended June 30, 2005, we considered the Department of Fish and Wildlife Resources' internal control over financial reporting and compliance with laws, regulations, contracts and grant agreements in order to determine our auditing procedures for the purpose of expressing opinions included in the audit of the CAFR and SSWAK and not to provide an opinion on internal control or on compliance.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The SSWAK is a separate report dated March 9, 2006 and contains all reportable conditions and material weaknesses in the Commonwealth's internal control structure and also contains all reportable instances of noncompliance. This letter contains the Department of Fish and Wildlife Resources' findings and our recommendations that have been extracted from the SSWAK report along with other matters that have been identified.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Jon Gassett, Commissioner
Department of Fish and Wildlife Resources

We will review the status of these comments during our next audit. We have already discussed many of these comments and suggestions with various agency personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations
- ◆ Summary Schedule of Prior Year Audit Findings

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2006

LIST OF ABBREVIATIONS/ACRONYMS

CAFR	Comprehensive Annual Financial Report
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CR	Cash Receipt Document
FY	Fiscal Year
F&W	Department of Fish and Wildlife Resources
KDFWR	Kentucky Department of Fish and Wildlife Resources
KRS	Kentucky Revised Statutes
OMB	Office of Management and Budget
R&D	Research and Development
SEFA	Schedule of Expenditures of Federal Awards
SB	Senate Bill
SSWAK	Statewide Single Audit of Kentucky
U.S.	United States

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to
		Cash	Noncash	Subrecipient
<u>U.S. Department of Fish and Wildlife Resources</u>				
Direct Programs:				
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$	61,420	
10.028	Wildlife Services (Note 4)		8,067	
10.902	Soil and Water Conservation		190,712	
10.914	Wildlife Habitat Incentive Program (Note 3)		\$	17,499
<u>U.S. Department of Defense</u>				
Direct Programs:				
12.NA(2)	Monitoring of Wildlife		43,923	
<u>U.S. Department of the Interior</u>				
Direct Programs:				
Fish and Wildlife Cluster:				
15.605	Sport Fish Restoration (Note 4)		3,602,336	
15.611	Wildlife Restoration (Note 6)		4,239,435	
15.615	Cooperative Endangered Species Conservation Fund (Note 4)		142,516	
15.616	Clean Vessel Act		78,742	
15.618	Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration		386	
15.622	Sportfishing and Boating Safety Act		2,356	
15.625	Wildlife Conservation and Restoration (Note 4)		270	
15.632	Conservation Grants Private Stewardship for Imperiled Species		89,063	
15.633	Landowner Incentive		706,176	
15.634	State Wildlife Grants (Note 4)		227,356	
15.NA(1)	Federal Junior Duck Stamp Conservation and Design Program		2,350	
<u>U.S. Environmental Protection Agency</u>				
Direct Programs:				
66.461	Regional Wetland Program Development Grants		31,057	
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
97.012	Boating Safety Financial Assistance		693,245	
Total U.S. Department of Fish and Wildlife Resources		\$	10,119,410	\$ 17,499 \$ -

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Commonwealth, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 05. The noncash expenditures presented on this schedule represent the noncash assistance expended using the method or basis of valuation described in Note 5.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as expenditures by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 05. The Department of Fish and Wildlife Resources had no programs that met the Type A program definition for FY 05.

Note 3 - Noncash Expenditure Programs

The Department of Fish and Wildlife Resource's noncash programs and a description of the method/basis of valuation follow.

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.914	Wildlife Habitat Incentive Program	\$17,499	Per award, \$5,833 per month for April through June 2005.

Note 4 - Research and Development Expenditures

OMB Circular A-133 Section 105 states, "Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity."

The expenditures presented in the SEFA include R&D expenditures. The R&D portion of the expenditures for each program follows.

CFDA #	Program Title	Expenditures
10.028	Wildlife Services	\$ 6,983
15.605	Sport Fish Restoration	1,397,694
15.615	Cooperative Endangered Species Conservation Fund	90,178
15.634	State Wildlife Grants	126,244
	Total R&D Expenditures	\$ 1,621,099

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 5 - Zero Expenditure Programs

The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

Note 6 - Wildlife Restoration (CFDA #15.611)

The Department of Fish and Wildlife Resources leases properties from the U.S. Army Corps of Engineers for Condition Three and Condition Five Projects. These projects stipulate that the properties leased be managed for wildlife purposes and may produce income. The leases for wildlife management rights on these properties are non-monetary. The Department of Fish and Wildlife Resources currently leases the following properties:

- Barren River
- Green River
- Dewey Lake
- Fishtrap Lake

Any expenditure in excess of revenue from each property listed above will be eligible for reimbursement under the Wildlife Restoration grant (CFDA #15.611) from the U.S. Department of the Interior. The properties listed above are not reimbursed with federal funds, if the grant has already been expended to manage other wildlife properties.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-DFWR-1: The Department Of Fish And Wildlife Resources Should
Develop Procedures Over Cash Drawdowns Within A Reasonable Time Frame**

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605-Sport Fish Restoration

CFDA 15.611-Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Cash Management

Amounts of Questioned Costs: \$0

During our testing of Cash Management internal controls and compliance, we noted that internal controls with regards to the timing of requests for federal reimbursements should be improved. The results of our tests noted four (4) instances where the supporting expenditures had accumulated over a period of seven (7) months before federal reimbursement requests were submitted. Two (2) instances were noted where the supporting expenditures had accumulated for a period of twelve (12) months before requests for federal reimbursements were filed. In addition, one (1) reimbursement request included expenditures accumulated over a four-month period.

The failure to request federal reimbursement of program expenditures within a reasonable period of time places undue burden on the Department of Fish and Wildlife Resources' cash and investments pool, and limits the agency's cash management and earning potential.

Proper internal controls over cash management activities dictate that the request of federal reimbursements be performed in a timely manner in order to minimize the burden on the agency's resources.

Recommendation

The Department of Fish and Wildlife Resources should develop written policies and procedures related to federal drawdowns. These procedures should specifically address performing drawdowns within a reasonable time frame after expenditures are incurred, and incorporate improved supervisory responsibility to ensure the draws are accurate and timely. In addition, staff members and supervisors responsible for cash management should be identified by the department, and properly trained as needed.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-DFWR-1: The Department Of Fish And Wildlife Resources Should Develop Procedures Over Cash Drawdowns Within A Reasonable Time Frame (Continued)

Management's Response and Corrective Action Plan

The Kentucky Department of Fish and Wildlife Resources agrees with this finding. The Department has had a written schedule in place since March 2003 for purposes of performing the required federal draw downs each month. However, due to turnover at both the staff and management levels for the Department and especially the Administrative Services Division, and the corresponding lack of oversight, this schedule was not followed for part of fiscal year 2005. The staff level in Administrative Services has been restored in part over the past six months, and as a result, the Department has been able to more effectively adhere to the pre-defined schedule for federal draw downs and reimbursements. The Administrative Services Division is also developing additional written policies and controls, along with employee training where necessary, to ensure that the appropriate level of supervisory oversight and awareness is in place and more timely requests of federal reimbursements are performed. The department expects to have the additional written policies and controls in place along with any employee training by June 1, 2006. The agency is also currently working closely with the Finance and Administration Cabinet to further enhance the federal draw down process by automating this process with the start of FY2007 in July. The eventual filling of additional key supervisory positions in the Administrative Services division will also support this move toward tighter controls.

FINDING 05-DFWR-2: The Department Of Fish And Wildlife Resources Should Develop And Implement An Accounting Policy Requiring The Retention Of Supporting Documentation For All Cash And Check Receipts

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources
 Federal Program: CFDA 15.605-Sport Fish Restoration
 CFDA 15.611-Wildlife Restoration
 Federal Agency: U.S. Department of the Interior
 Pass-Through Agency: Not Applicable
 Compliance: Program Income
 Amounts of Questioned Costs: \$0

In our tests of Program Income, we were unable to verify the accuracy and proper classification of Program Income for three (3) amounts reported in the MARS Financial System because the requested cash transmittals and supporting documentation could not be located. In addition, we noted that the supporting documentation for Duplicate Hunter

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-DFWR-2: The Department Of Fish And Wildlife Resources Should Develop And Implement An Accounting Policy Requiring The Retention Of Supporting Documentation For All Cash And Check Receipts (Continued)**

Safety Cards was insufficient. Twenty-two (22) of the cash transmittals tested did not have supporting documentation for amounts recorded and classified as Duplicate Hunter Safety Cards. Although the lack of adequate record keeping and supporting documentation are considered internal control weaknesses, the dollar amounts related to these were considered immaterial. We applied alternative testing procedures in order to substantiate the completeness of reported program income.

Failure to maintain proper supporting documentation prohibits the verification and reconciliation of receipt amounts to cash transmittals reported to Treasury. In addition, the failure to maintain adequate supporting receipt documentation calls into question the completeness of receipt collections, as well as accuracy of financial reports.

Sound internal controls over the cash handling function require that adequate supporting documentation be maintained. Such supporting documentation is necessary in order to ensure the completeness of revenue collections, facilitate the reconciliation of receipts to accounting records, and ensure accurate financial reporting.

Recommendation

We recommend the Department of Fish and Wildlife Resources develop and implement an accounting policy requiring the retention of supporting documentation for all cash and check receipts. The policy should be clearly communicated to all personnel involved in the cash handling process.

Management's Response and Corrective Action Plan

The Kentucky Department of Fish and Wildlife Resources agrees with this finding. Based on review of past correspondence, the policy governing the retention of supporting documentation was revised at some point in fiscal year 2005 to shift document retention from the grant/accounting staff and the Administrative Services Division to programmatic staff and the other Divisions. However, based on our research during the recent audit, it is apparent that the communication of this policy was inadequate for full implementation. In explanation, programmatic staff remained unaware of the necessity to retain applicable documentation. The Administrative Services Division is in the process of reviewing and revising specific policies governing support documentation retention for all sources of revenue (including Kentucky Afield Subscriptions, Hunter Education Cards, Licenses and Permits, and Program Income). As a result of staff retention issues, cash management responsibilities periodically shift throughout the Department. This

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance***

FINDING 05-DFWR-2: The Department Of Fish And Wildlife Resources Should Develop And Implement An Accounting Policy Requiring The Retention Of Supporting Documentation For All Cash And Check Receipts (Continued)

has resulted in the identification of the need to provide frequent training and re-training to ensure the appropriate handling of receipts and that the associated documentation is retained. It is worth noting that the responsibility of ensuring appropriate retention of supporting documentation now lies with the Administrative Services Division. It is the intention of the department to ensure that all cash management and documentation requirements are put in writing, and accompanied by training for the appropriate employees, and are available for review by June 1, 2006.

Excessive staffing changes throughout the Department and Administrative Services Division resulted in an inability to accurately and timely reconcile cash receipts. However, in order to allocate the appropriate oversight and controls necessary to this function, this agency has taken action to fill an accounts receivable position in September 2005 along with other key oversight positions. The Department has noted improvements in the agency's performance of this function. The Administrative Services Division is also developing and updating written policies, employee training and cross training to maintain a formal reconciliation of all revenue receipts to the general ledger system. This policy will also be available for review by no later than June 1, 2006.

FINDING 05-DFWR-3: The Department Of Fish And Wildlife Resources Should Continue Efforts To Have The General Assembly Remove KRS 150.150 Language From KRS 48.315

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605-Sport Fish Restoration

CFDA 15.611-Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Special Tests and Provisions

Amounts of Questioned Costs: \$0

Kentucky Revised Statute (KRS) 48.315 "Transfer of agency, special, and other funds to general fund in budget bill" permits the General Assembly to create a budget bill allowing for the transfer to the state's general fund all or part of the Department of Fish and Wildlife Restoration's "Game and fish fund," as established per KRS 150.150. As such, KRS 48.315 conflicts with the Code of Federal Regulations, Title 50, Part 80, Sections 3 and 4 (50 CFR 80), which prohibits the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish wildlife agency.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance***

FINDING 05-DFWR-3: The Department Of Fish And Wildlife Resources Should Continue Efforts To Have The General Assembly Remove KRS 150.150 Language From KRS 48.315 (Continued)

The Commonwealth of Kentucky's violation of 50 CFR 80 may impend future federal funding. 50 CFR 80, Section 3 specifies that any state legislation which conflicts with the established CFR shall be subject to review by the Secretary; and if found to be noncompliant, "the State shall become ineligible."

50 CFR 80.3 *Assent legislation* requires the following:

A State may participate in the benefits of the Act(s) only after it has passed legislation which assents to the provisions of the Acts and has passed laws for the conservation of fish and wildlife including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency. Subsequent legislation which amends these state laws shall be subject to review by the Secretary. If the legislation is found contrary to the assent provisions, the State shall become ineligible.

KRS 150.150 *Game and fish fund* states:

- (1) Except as provided in this chapter, all moneys derived from the sale of licenses or from any other source connected with the administration of this chapter shall be promptly paid over to the State Treasurer, who shall deposit such moneys in a special fund, known as the game and fish fund. The game and fish fund shall be used to carry out the purposes of this chapter and any law or regulation for the protection of wildlife and for no other purpose.

KRS 48.315 *Transfer of agency, special, and other funds to general fund in budget bill* states,

- (1) The General Assembly may provide in a budget bill for the transfer to the general fund all or part of the agency funds, special funds, or other funds established under the provisions of ...KRS 150.150...

Recommendation

The Department of Fish and Wildlife Resources should continue its efforts, as evidenced by submission of the current Senate Bill 120, to exhort the General Assembly's amendment of KRS 48.315, whereby removing the provision established under KRS 150.50. The General Assembly should be made aware that failure to remove KRS 150.50 from inclusion in KRS 48.315 directly violates the Code of Federal Regulations, Title 50, Part 80, Sections 3 and 4. The result of which may jeopardize the eligibility for federal funding.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-DFWR-3: The Department Of Fish And Wildlife Resources Should
Continue Efforts To Have The General Assembly Remove KRS 150.150 Language
From KRS 48.315 (Continued)**

Management's Response and Corrective Action Plan

The Department of Fish and Wildlife Resources agrees with this finding. The Department is currently pursuing legislation in the 2006 General Assembly with Senate Bill 120 in an attempt to amend KRS 48.315, whereby removing the provision established under KRS Chapter 150. The department has worked tirelessly with the 2006 General Assembly to make them aware that failure to remove KRS Chapter 150 from inclusion in KRS 48.315 directly violates the Code of Federal Regulations, Title 50, Part 80, Sections 3 and 4. The result of which may jeopardize the eligibility for federal funding. To date, SB 120 has passed the Senate 37 to 0 and is currently assigned to the House Appropriations and Revenue Committee. Although the 2006 General Assembly is coming to an end, it is the department's hope that SB 120 will pass favorably out of committee and on the House Floor during the last full week of session (March 20 to 24).

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-DFWR-4: The Department Of Fish And Wildlife Resources Should Enforce Strong Internal Controls Over Timekeeping And Authorization Procedures

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605-Sport Fish Restoration
CFDA 15.611-Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Activities Allowed and Allowable Costs

Amounts of Questioned Costs: \$0

During our testing of payroll expenditures, we noted one (1) of the employees' timesheets included time charged to a grant that was incorrectly reported under CFDA number 15.611. The project was part of another federal grant that should have been reported under CFDA number 10.902.

We noted another instance where a supervisor failed to approve an employee's timesheet and all of the employee's time was incorrectly charged to one (1) grant. According to the timesheet the employee's hours should have been charged to four (4) grants. In addition, the administrative review failed to detect the error and make the necessary correction.

The payroll time charged to the grant that was incorrectly reported under CFDA number 15.611 is considered a disallowed cost, and is, therefore, a federal noncompliance of CFDA 15.611. The amount of the disallowed cost, however, is immaterial (\$2.26) and not required to be reported. In addition, the failure to properly code, account, and report, as well as failure to review and correct the noted transaction constitute internal control weaknesses.

Failure to follow prescribed internal control policies and procedures requiring supervisors signatures on time reports threatens the safeguarding of the Department of Fish and Wildlife Resources' assets. In addition, lack of oversight of such timekeeping controls may result in inaccurate payroll accounting, Federal reporting, as well as financial reporting.

One of the internal control objectives pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs) found in Subpart A §____.105 of OMB Circular A-133, states:

- (1) Transactions are properly recorded and accounted for to:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-DFWR-4: The Department Of Fish And Wildlife Resources Should Enforce Strong Internal Controls Over Timekeeping And Authorization Procedures (Continued)**

Sound internal control procedures and accounting practices require that payroll timekeeping records be signed timely by the employee and properly authorized with supervisor's signature. Such internal controls help safeguard against fraudulent or falsified time reporting.

Recommendation

We recommend that the Department of Fish and Wildlife Resources enforce strong internal controls over timekeeping and authorization procedures, as well as the accounting, reviewing, and reporting functions in order to protect federal and state resources.

Management's Response and Corrective Action Plan

The Kentucky Department of Fish and Wildlife Resources agrees with this finding. The Department has, on August 31, 2005, issued a written timekeeping policy that includes daily time accounting as well as employee and supervisory signature approvals. Specifically, our written policy states: "it remains important to remind everyone that both the employee and supervisor shall sign the completed time sheet, attesting that all information is correct before submission." Internal to the Administrative Services Division, the high turnover in both staff and management, and the corresponding lack of oversight, during fiscal year 2005 prevented the department from performing the necessary payroll audits in a timely manner. However, the staff level in Administrative Services has been restored in part over the past six months, and as a result, the Department has been able to begin again the necessary payroll audits in order to provide an additional level of quality control to timekeeping and authorization. With the implementation of the new timekeeping policy, the eventual filling of additional key supervisory positions in the Administrative Services division, and the use of specific procedures for hiring and cross training, the department is expected to remain in compliance with the payroll audit requirement. By doing this, the department does not expect to have such findings in the future.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-DFWR-5: The Department of Fish And Wildlife Resources Should
Make Use Of All State Financial Accounting System Components**

State Agency: Commerce Cabinet - Department of Fish & Wildlife Resources

Federal Program: CFDA 15.605-Sport Fish Restoration
CFDA 15.611-Wildlife Restoration

Federal Agency: U.S. Department of the Interior

Pass-Through Agency: Not Applicable

Compliance: Activities Allowed and Allowable Costs

Amounts of Questioned Costs: \$0

The Department of Fish and Wildlife Resources (KDFWR) does not maintain or apply its federally approved indirect cost allocation rates through use of the state's MARS Financial System. Although the indirect costs and cost adjustments are tracked through use of electronic spreadsheets, the accounting data is never input to the MARS Financial System.

Failure to compute the applicable indirect costs and cost adjustments through the state's general ledger system constitutes an internal control weakness. Although the federally approved rates are applied to various grant projects through use of electronic spreadsheets, the failure to establish, apply, record, and maintain the indirect cost allocations and related adjustments in the MARS general ledger system could lead to the misapplication of approved rates. Consequently, a misapplication of an indirect cost rate may lead to a federal noncompliance. In addition, the KDFWR financial reports generated by MARS are misleading due to failure to include the indirect cost data.

Proper internal controls over allowable costs and activities, dictate that all financial data be maintained in the appropriate general ledger system (i.e., MARS). Financial data includes, but is not limited to, the proper establishment of indirect cost tables, agency and federal government cost match rates, as well as other input parameters related to grant program administration. In addition, proper internal controls dictate that all supporting financial data be reconciled timely to the various budget and other MARS-generated financial reports.

Recommendation

The Department of Fish and Wildlife Resources should obtain the necessary MARS training sufficient to establish, record, maintain, and report all pertinent grant, as well as agency, financial data for the proper administration of federal and state resources.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-DFWR-5: The Department Of Fish And Wildlife Resources Should
Make Use Of All State Financial Accounting System Components (Continued)****Management's Response and Corrective Action Plan**

Kentucky Department of Fish and Wildlife Resources agrees with this finding. Unfortunately, the MARS system has a 3 month life span remaining before being shut down and transitioned to a new accounting system (eMARS). This timeframe combined with the scope of changes necessary to fully integrate all agency processes in MARS prevents us from immediately incorporating these processes in MARS. For the transitional timeframe remaining in MARS and in order to facilitate a successful integration of agency accounts to the eMARS system, manual reconciliations are being completed to correct the data currently in MARS.

As a result of this audit finding combined with our ongoing review of current agency accounting processes, KDFWR has initiated actions to incorporate the approved indirect cost formula, project billing and cost allocation into eMARS during the upcoming transition. In addition, the agency intends to incorporate the IPA pre-audit activities as a formal document approval in eMARS which will further enhance and strengthen the control structure within the agency. Anna Adams, serving in her role as agency co-AIL, is working with the Finance and Administration Cabinet's eMARS transition team to effect these changes beginning July 1 for FY2007. All applicable agency employees will receive necessary training prior to eMARS implementation.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

Reportable Conditions

(1) Audit findings that have been fully corrected:

FY 04	04-FW-1	The Department Of Fish and Wildlife Should Ensure That All Timesheets Are Signed By The Employee And The Supervisor	15.605 15.611	0	Resolved during FY 05.
FY 04	04-FW-3	The Department Of Fish And Wildlife Should Implement Procedures To Ensure Program Income Is Properly Accounted For And Recorded In The System	15.605 15.611	0	Resolved during FY 05.

(2) Audit findings not corrected or partially corrected:

FY 04	04-FW-2	The Department Of Fish And Wildlife Should Consider Requesting The General Assembly To Adopt 50 CFR 80.3-80.4 Into State Law	15.605 15.611	0	F&W continues to make efforts to resolve this issue with the Kentucky General Assembly. See 05-DFWR3.
-------	---------	--	------------------	---	--

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

There were no findings for this section.

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

Other Matters

(1) Audit findings that have been fully corrected:

There were no findings for this section.

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.